

Terbit online pada laman web jurnal : jkaa.bunghatta.ac.id

JURNAL KAJIAN AKUNTANSI DAN AUDITING

| ISSN (print) : 1907-2473 | E-ISSN 2721-8457 |



TOP MANAGEMENT EXPERTISE AND REAL PROFIT MANAGEMENT: MODERATING ROLES OF AUDIT COMMITTEES AND INDEPENDENT COMMISSIONERS

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Abstract

This study examines the effects of independent board and audit committee expertise on Top Management Teams (TMT) and Real Earnings Management (REM) relationships. The sample in this study is manufacturing companies listed on the Indonesia Stock Exchange (IDX) for the period 2015 – 2024 with a total of 240 companies. Analysis of the research model using General Least Square (GLS). TMT financial and accounting skills are positively associated with REM. On the other hand, the financial and accounting expertise of the independent board and audit committee has a negative impact on the relationship between TMT and REM expertise. Other findings show consistent results for family firms and non-family firms. These findings are relevant and have implications for public policies related to good corporate governance (GCG), especially in countries with a two-tier system. The impact of the financial and accounting expertise of independent board and audit committee as a moderating variable in the relationship between TMT expertise and REM practices is still rare, especially in countries with two-tier systems. The results of this study show the importance of financial and accounting expertise from independent board and audit committees for effective control mechanisms that can ultimately reduce information asymmetry, especially information related to company profits.

Keywords: Audit Committees, Good Corporate Governance, Real Earnings Management, Top Management Teams

Abstrak

Penelitian ini menguji pengaruh dewan independen dan keahlian komite audit terhadap hubungan antara Tim Manajemen Puncak (TMT) dan Manajemen Laba Riil (Real Earnings Management atau REM). Sampel dalam penelitian ini adalah perusahaan manufaktur yang terdaftar di Bursa Efek Indonesia (BEI) periode 2015–2024 dengan total 240 perusahaan. Analisis model penelitian menggunakan metode General Least Square (GLS). Hasil menunjukkan bahwa keterampilan keuangan dan akuntansi TMT berhubungan positif dengan REM. Sebaliknya, keahlian keuangan dan akuntansi dari dewan independen dan komite audit memberikan dampak negatif pada hubungan antara keahlian TMT dan REM. Temuan lainnya menunjukkan hasil yang konsisten baik pada perusahaan keluarga maupun perusahaan non-keluarga. Temuan ini relevan dan memiliki implikasi bagi kebijakan publik terkait Tata Kelola Perusahaan yang Baik (Good Corporate Governance atau GCG), khususnya di negara-negara dengan sistem dua dewan (two-tier system). Dampak keahlian keuangan dan akuntansi dewan independen serta komite audit sebagai variabel moderasi dalam hubungan antara keahlian TMT dan praktik REM masih jarang diteliti, terutama di negara dengan sistem dua dewan. Hasil penelitian ini menunjukkan pentingnya keahlian keuangan dan akuntansi dari dewan independen dan komite audit untuk mekanisme pengendalian yang efektif, yang pada akhirnya dapat mengurangi asimetri informasi, khususnya informasi terkait laba perusahaan.

Kata Kunci: Good Corporate Governance, Manajemen Laba Riil, Komite Audit, Tim Manajemen Puncak

Informasi Artikel

Diterima : 07/05/2026

Review Akhir : 12/05/2026

Diterbitkan online : 05/2026

INTRODUCTION

Possible conflicts between principals and agents have long been explained by agency theory (Jensen & Meckling, 1976). In pursuing their own interests, directors may behave opportunistically by prioritizing short-term personal benefits over shareholders' interests. Because financial statements are the primary source used by principals to evaluate managerial performance, directors have incentives to manipulate reported earnings to achieve desired financial outcomes. Numerous financial reporting scandals around the world, such as those involving Enron, WorldCom, Tyco, Parmalat, and Satyam, demonstrate how managerial opportunism may lead to substantial losses for shareholders and other stakeholders while simultaneously reducing the credibility of published financial information. Similar cases have also occurred in Indonesia, including those involving Garuda Indonesia and Kimia Farma. These cases indicate that weak monitoring mechanisms may create opportunities for directors to engage in earnings management practices.

Earnings management can generally be classified into accrual earnings management and real earnings management (Agustia et al., 2020; Cohen et al., 2008; Roychowdhury, 2006). Compared to accrual-based manipulation, real earnings management is considered more difficult to detect because it is conducted through operational decisions that appear consistent with normal business activities. Ewert & Wagenhofer (2005) argue that tighter accounting regulations and stronger monitoring mechanisms may reduce accrual manipulation but simultaneously encourage managers to shift toward real earnings management. This argument was empirically confirmed by Cohen et al. (2008), who documented a decline in accrual earnings management and an increase in real earnings management following the implementation of the Sarbanes–Oxley Act in the United States. Subsequent studies also suggest that managers tend to prefer real earnings management when external monitoring constrains their accounting discretion (Chan et al., 2015; Roychowdhury, 2006; Zang, 2012). These findings imply that real earnings management remains a critical governance issue, particularly in emerging markets where monitoring effectiveness is often heterogeneous.

Previous studies examining the relationship between boards and earnings management have primarily relied on general governance characteristics such as board size, gender diversity, or incentive structures, yet the findings remain inconclusive (Chatterjee & Rakshit, 2020; Dieu, 2019; L. Kao & Chen, 2004; Nugroho & Eko, 2011). Although several studies have incorporated financial expertise into earnings management research, most focus on audit committees or accrual earnings management, while limited attention has been given to how the financial and accounting expertise of top management teams (TMT) influences real earnings management decisions, particularly in emerging-market settings. This issue is important because financial expertise may function as a double-edged sword. On one hand, it can improve reporting quality and managerial decision making; on the other hand, it may provide managers with greater technical capability to manipulate operational activities in ways that are more difficult to detect. Therefore, the direction of the relationship between TMT financial expertise and real earnings management remains theoretically debatable and empirically underexplored.

In addition, prior studies generally examine monitoring mechanisms independently and pay limited attention to how governance actors interact in constraining managerial opportunism. This study extends the literature by investigating whether the financial and accounting expertise of audit committees and independent commissioners weakens the relationship between TMT expertise and real earnings management. Unlike previous studies that focus solely on direct effects, this study develops a more comprehensive governance framework by emphasizing the interaction between managerial expertise and monitoring effectiveness. Using manufacturing firms listed on the Indonesian Stock Exchange during 2015–2024, this study contributes to the earnings management literature by providing evidence from an emerging-market context characterized by concentrated ownership structures and relatively strong reliance on internal governance mechanisms.

LITERATUR REVIEW DAN HYPOTHESES

Relationship of financial and accounting expertise of TMT and Real Earnings Management

Earnings management has traditionally been examined through accrual-based manipulation because accrual discretion directly affects accounting numbers reported in financial statements (Healy & Wahlen, 1999; Watts & Zimmerman, 1990). However, stricter accounting standards and stronger external monitoring have gradually reduced managers' flexibility in manipulating accruals, encouraging a shift toward real earnings management practices (Ewert & Wagenhofer, 2005). Real earnings management refers to managerial actions that deviate from normal operational activities, such as providing excessive sales discounts, reducing discretionary expenditures, or overproducing inventory to influence reported earnings (Roychowdhury, 2006). Unlike accrual manipulation, real earnings management is embedded in operational decisions and is therefore more difficult for auditors and regulators to detect.

Several studies provide evidence that managers increasingly rely on real earnings management when accounting discretion becomes more constrained. Cohen et al. (2008) documented that firms shifted from accrual manipulation toward real earnings management following the implementation of the Sarbanes–Oxley Act. Similarly, Kuo et al. (2014) found that Chinese firms increased real earnings management practices after regulatory reforms reduced opportunities for accrual manipulation. Other studies also indicate that managers use real operational decisions strategically to avoid losses, meet earnings targets, reduce debt covenant violations, or obtain more favorable financing outcomes (Ge & Kim, 2014; Graham et al., 2005; Kim et al., 2010). Collectively, these findings suggest that real earnings management is not merely an accounting issue but also a strategic managerial decision.

The relationship between TMT characteristics and real earnings management can be explained through the integration of Agency Theory and Upper Echelons Theory. Agency theory argues that managers may engage in opportunistic behavior to maximize personal benefits when monitoring mechanisms are ineffective (Jensen & Meckling, 1976). Meanwhile, Upper Echelons Theory emphasizes that organizational outcomes are largely shaped by executives' cognitive characteristics, expertise, and experiences (Hambrick, 2007). In the context of real earnings management, financial and accounting expertise provides TMT members with superior technical knowledge regarding financial reporting processes, cost structures, operational policies, and the potential financial consequences of managerial decisions. This expertise enables managers not only to understand accounting standards more comprehensively but also to identify operational activities that can be modified to achieve targeted earnings while remaining less visible to external monitors.

Thus, the mechanism linking TMT expertise and real earnings management is not solely driven by incentive alignment, but also by managerial capability. TMT members with financial and accounting expertise possess greater ability to strategically adjust production decisions, discretionary expenditures, and sales policies in ways that influence reported earnings without directly violating accounting standards. Because real earnings management is embedded within operational activities, financially sophisticated executives may perceive this practice as less risky compared to accrual manipulation. Consequently, financial expertise may strengthen managerial capacity to conduct real earnings management more effectively and efficiently.

Prior studies also indicate that real earnings management may generate significant long-term consequences for firms because it distorts normal business operations and negatively affects future cash flows and firm value (Chan et al., 2015; Cohen & Zarowin, 2010; Roychowdhury, 2006). Nevertheless, managers may still prefer this strategy because it allows them to achieve short-term earnings targets and maintain favorable market perceptions (Graham et al., 2005; Gunny, 2010). Based on these arguments, this study proposes the following hypothesis:

H1: TMT's Financial and Accounting Expertise is positively related to Real Earnings Management

Effects of Independent Commissioner's and Audit Committee's financial and accounting expertise on the relationship between TMT's financial and accounting expertise and Real Earnings Management

Agency theory suggests that the separation between ownership and control creates incentives for managers to pursue personal interests that may conflict with shareholders' objectives (Jensen & Meckling, 1976). In this situation, effective monitoring mechanisms are necessary to reduce managerial opportunism and ensure that managerial decisions remain aligned with shareholders' interests (Fama & Jensen, 1983). Within the two-tier governance system, independent commissioners and audit committees play an essential monitoring role because they oversee managerial actions and evaluate the credibility of financial reporting practices.

The effectiveness of these governance mechanisms, however, depends not only on structural independence but also on the expertise possessed by supervisory members. Independent commissioners and audit committee members with financial and accounting expertise are more likely to understand the technical implications of managerial reporting decisions, identify abnormal operational practices, and recognize signals of earnings manipulation. Financial expertise improves their ability to evaluate accounting estimates, interpret complex financial information, question managerial decisions, and communicate effectively with internal and external auditors (DeZoort & Salterio, 2001; Mangena & Pike, 2005; Zhang et al., 2007). Consequently, supervisory members with accounting and financial competence are expected to monitor managerial behavior more effectively than those without such expertise.

The moderating mechanism proposed in this study is based on the argument that financially sophisticated monitoring bodies can reduce the informational advantage possessed by financially sophisticated TMT members. Although TMT financial expertise may increase managerial capability to engage in real earnings management, the presence of independent commissioners and audit committee members with similar expertise strengthens monitoring quality and increases the likelihood that abnormal operational decisions will be identified. As a result, the effectiveness of real earnings management practices becomes more limited because managers face higher scrutiny and greater reputational and regulatory risks.

This argument is consistent with prior empirical evidence showing that financially competent governance mechanisms are associated with higher financial reporting quality and lower earnings manipulation. Abbott et al. (2004) and Agrawal & Chadha (2005) documented that firms with financially expert audit committee members are less likely to restate financial statements. Similarly, Bedard and Gendron (2010) and Hossain et al. (2011) found that financial expertise among supervisory members reduces the likelihood of earnings management practices. However, previous studies generally focus on the direct effects of governance expertise on earnings quality, while limited attention has been given to its moderating role in constraining the opportunistic behavior of financially sophisticated TMT members, particularly in the context of real earnings management.

H2: The Independent board's financial and accounting expertise negatively affects the relationship of TMT expertise to Real Earnings Management

H3: The Audit Committee's financial and accounting expertise negatively affects the association of TMT expertise with Real Profit Management



Figure 1. Conceptual Framework

Source: By the authors

RESEARCH METHODE

Sample

This study uses a sample of manufacturing companies listed on the Indonesia Stock Exchange (IDX), consisting of 240 firms. The observation period spans from 2015 to 2024, resulting in a total of 1,870 firm-year observations. Manufacturing companies were selected because they represent the largest sector listed on the Indonesia Stock Exchange (IDX). The sample criteria include manufacturing firms listed on the IDX during 2015–2024 with complete management and financial data required for this study.

Definition and measurement

The dependent variable in this study is Real Earnings Management (REM). REM is an action that occurs when managers deviate from standard practice in order to increase reported earnings for the current accounting period (Gunny, 2010). In accordance with a study by Roychowdhury (2006) and Cohen et al. (2008), real earnings management can be identified by three proxies are operational cash flow, discretionary costs, and production costs. According to Roychowdhury (2006) and Cohen et al. (2008), low levels of operating cash flow, high production costs, and abnormal discretionary costs could be indicators of real activity manipulation..

1) Abnormal Operating Cash Flow

The abnormal operating cash flow (CFO) rate is the difference between accrued operating cash flows and normal cash flows. Cash from sales has a significant impact on operating cash flow (Roychowdhury, 2006). According to Roychowdhury (2006), companies use handling sales to increase sales by offering discounts and advantageous payment terms. This method can diminish the company's operating cash flow. The CFO abnormal regression model is as follows (Roychowdhury, 2006):

$$\frac{CFO_{i,t}}{AT_{i,t-1}} = \alpha_1 \frac{1}{AT_{i,t-1}} + \alpha_2 \frac{Sales_{i,t}}{AT_{i,t-1}} + \alpha_3 \frac{\Delta Sales_{i,t}}{AT_{i,t-1}} + \varepsilon_{i,t} \quad (A)$$

where:

CFO : Operating Cash Flow

AT : Total Assets

Sales : Net Sales

2) Overproduction

The management of a manufacturing company can use overproduction to manage company revenue. The underlying principle of this method is to produce more than usual. As the number of units increases in accordance with the objective, the proportional allocation of fixed production costs to each unit decreases. Consequently, this will reduce the cost of goods sold and increase the gross margin (Roychowdhury, 2006). The production level regression model (PROD) is as follows (Roychowdhury, 2006):

$$\frac{PROD_{i,t}}{AT_{i,t-1}} = \alpha_1 \frac{1}{AT_{i,t-1}} + \alpha_2 \frac{Sales_{i,t}}{AT_{i,t-1}} + \alpha_3 \frac{\Delta Sales_{i,t}}{AT_{i,t-1}} + \alpha_4 \frac{\Delta Sales_{i,t-1}}{AT_{i,t-1}} + \varepsilon_{i,t} \quad (B)$$

where: $PROD_{i,t} = COGS_{i,t} + \Delta INVT_{i,t}$

PROD : Cost of goods plus changes in inventory value

3) Discretionary Cost

Discretionary costs are expenses incurred and paid in the same period. Companies can achieve an increase in annual profit by reducing discretionary expenses and reported expenses. This expenditure reduction will increase operating cash flow for the current period (Roychowdhury, 2006). The discretionary cost regression model (DISC) is as follows (Roychowdhury, 2006):

$$\frac{DISC_{i,t}}{AT_{i,t-1}} = \alpha_1 \frac{1}{AT_{i,t-1}} + \alpha_2 \frac{Sales_{i,t-1}}{AT_{i,t-1}} + \varepsilon_{i,t} \quad (C)$$

where: DISC = R & D Expense + Advertising Expense + General Expense

DISC : Discretionary cost

AT : Total Assets

Sales : Net Sales

4) Real Earnings Management

To obtain real earnings management (REM), the residual values of the three previous regressions are added up. REM calculation using the following model:

$$REM_{i,t} = -SR(Ab_CFO_{i,t}) + SR(Ab_PROD_{i,t}) - SR(Ab_DISC_{i,t}) \quad (D)$$

where:

- REM : Real Earnings Management
- Ab_CFO : abnormal CFO (model A residual value)
- Ab_PROD : abnormal production (residue value model B)
- Ab_DISC : abnormal discretionary costs (residual value model C)

In this study, the independent variable is TMT financial and accounting expertise (TMT EXPERT), while the moderating variables are the financial and accounting expertise of independent commissioners and audit committee members. These variables are measured using the percentage of members with financial and accounting expertise within each governance body. Financial and accounting expertise is identified based on academic background and professional experience following Badolato et al. (2014). Financial expertise includes experience as account managers, financial analysts, bankers, and investment or fund managers, whereas accounting expertise includes experience as CFOs, internal supervisors, certified public accountants, accountants, and accounting lecturers or professors.

This study uses several control variables in its research model, namely company size (FIRM_SIZE), Board of Directors Size (BOARD_SIZE), Audit Committee Size (AC_SIZE), Independent board Size (BI_SIZE), and profit ratio (ROA).

Model and methodology

The purpose of this study is to show empirical evidence regarding the effect of financial and accounting expertise from TMT on real earnings management. Then, it shows evidence of the effect of the financial and accounting expertise of independent commissioners and audit committees on the effect of TMT on real earnings management. Model regression analysis using General Least Square (GLS). This study employs Generalized Least Squares (GLS) because panel data are often affected by heteroscedasticity and autocorrelation, which may produce inefficient estimates when using Ordinary Least Squares (OLS). GLS is more appropriate as it directly accommodates non-spherical error structures by correcting heteroscedasticity and serial correlation during the estimation process, thereby generating more efficient and reliable parameter estimates. Consequently, additional classical assumption tests for heteroscedasticity and autocorrelation are generally unnecessary because these issues have been addressed inherently through the GLS estimation procedure. Thus, this study uses two research models as follows:

$$REM_{it} = \alpha + \beta (TMT_EXPERT)_{it} + \beta (FIRM_SIZE)_{it} + \beta (BOARD_SIZE)_{it} + \beta (AC_SIZE)_{it} + \beta (BI_SIZE)_{it} + \beta (ROA)_{it} + \epsilon_{it} \dots \dots \dots (Model 1)$$

$$REM_{it} = \alpha + \beta (TMT_EXPERT)_{it} + \beta (TMT_EXPERT*BI_EXPERT)_{it} + \beta (TMT_EXPERT*AC_EXPERT)_{it} + \beta (FIRM_SIZE)_{it} + \beta (BOARD_SIZE)_{it} + \beta (AC_SIZE)_{it} + \beta (BI_SIZE)_{it} + \beta (ROA)_{it} + \epsilon_{it} \dots \dots \dots (Model 2)$$

RESULT & DISCUSSION

Table 1. Descriptive Statistics

Variable	Obs	Mean	Std. Dev.	Min	Max
REM	1870	.078	.295	-5.878	3.165
TMT Exp	1870	.648	.087	.501	.8
BI Exp	1870	.778	.16	.333	1
AC Exp	1870	.776	.177	.5	1
Firm Size	1870	28.159	1.706	23.438	33.537
BOC Size	1870	4.99	.807	4	6

Variable	Obs	Mean	Std. Dev.	Min	Max
BI Size	1870	2.67	.471	2	3
AC Size	1870	3.51	.5	3	4
ROA	1870	.365	10.745	-.153	.885

Source: STATA MP64, (2026)

Table 1 displays the conditions of the studied variables. In accordance with the table 1's descriptive results, the average ROA is 36.5% and the average REM is 0.078. This demonstrates that the profit rate can be an early indicator of REM practices, although this must still be demonstrated through the calculation of abnormal cashflow, abnormal production, and abnormal discretionary costs (Ibrahim et al., 2020; Ma et al., 2019; Roychowdhury, 2006; Sae-Lim & Jermsittiparsert, 2019). While the minimum observed ROA is -15.3% and the minimum observed REM value is -5.878. This occurred due to the fact that Indonesia experienced multiple crisis conditions during observation, including the economic crisis of 2014 and Covid-19 in 2019 and 2020.

In addition, Table 1 demonstrates that a majority of TMT, independent board, and audit committee members have financial and accounting knowledge. Profitability is desired by the owner, so a TMT with financial and accounting knowledge is required to achieve this objective. In addition, the potential for TMT fraud must be mitigated by appointing financial and accounting experts to a independent board and audit committee. In a system of good corporate governance, the independent board and audit committee serve as a check and balance (Aladwey et al., 2022; Arora & Sharma, 2016; Bhagat & Bolton, 2008; Pareek & Sahu, 2022; Sharma et al., 2009).

Table 2. Matrik Correlations

Variables	(1)	(2)	(3)	(4)	(5)	(6)	(7)	(8)	(9)
(1) REM	1.000								
(2) TMT_Exp	-0.043	1.000							
(3) BI_Exp	-0.017	0.013	1.000						
(4) AC_Exp	-0.008	-0.023	-0.324	1.000					
(5) Firm_Size	-0.033	0.038	0.019	0.014	1.000				
(6) BOC_Size	0.008	-0.005	-0.516	0.069	0.012	1.000			
(7) BI_Size	0.010	-0.017	-0.244	0.169	0.003	0.062	1.000		
(8) AC_Size	0.026	0.012	-0.012	-0.021	-0.017	0.002	0.011	1.000	
(9) ROA	-0.053	-0.024	0.029	-0.027	0.098	-0.048	-0.034	0.010	1.000

Source: STATA MP64, (2026)

The results of the multicollinearity test are displayed in Table 2. On the basis of the correlation matrix, it is evident that the model does not contain multicollinearity issues.

Table 3. Result of Hypothesis Test

	(1) Model 1	(2) Model 2
TMT_Exp	0.128* (1.70)	0.239* (0.72)
Firm_Size	0.039*** (10.16)	0.039*** (10.13)
BOC_Size	-0.002 (-0.15)	0.002 (0.12)
BI_Size	0.005* (0.17)	-0.100* (-1.40)
AC_Size	-0.014* (-1.10)	-0.063 (-1.26)

	(1)	(2)
	Model 1	Model 2
ROA	0.061**	0.097**
	(0.86)	(0.94)
TMT_Exp*BI_Exp		-0.197*
		(-1.08)
TMT_Exp*AC_Exp		-0.343*
		(-1.01)
Industry Effect Control	Yes	Yes
Years Effect Control	Yes	Yes
R square	.398	.462
<i>N</i>	1870	1870

t statistics in parentheses

* $p < 0.05$, ** $p < 0.01$, *** $p < 0.001$

Source: STATA MP64, (2026)

Table 3 presents the main regression results of this study. In Model 1, TMT financial and accounting expertise has a significant positive effect on real earnings management (REM), indicating that H1 is supported. This finding suggests that financially sophisticated TMT members are more capable of managing operational activities to achieve targeted earnings. Rather than relying on accrual manipulation, which is relatively easier to detect by auditors and regulators, TMT members with stronger financial expertise tend to utilize operational decisions that are embedded in normal business activities. In practice, this includes providing aggressive sales incentives, reducing discretionary expenditures, or adjusting production decisions to improve reported earnings and short-term performance.

These findings are consistent with the argument of Ewert & Wagenhofer (2005) and the empirical evidence of Cohen et al. (2008), which show that stricter accounting regulations encourage managers to shift from accrual-based manipulation toward real earnings management. From the perspective of Upper Echelons Theory, the results indicate that managerial expertise not only improves decision-making quality but may also increase managerial capability to exploit operational flexibility for opportunistic purposes. In the Indonesian context, where ownership concentration remains relatively high and monitoring effectiveness varies across firms, financially knowledgeable TMT members may possess substantial discretion in determining operational and reporting policies. Consequently, financial expertise can function as a strategic resource that facilitates earnings manipulation through operational activities that are less visible to external stakeholders. These results also corroborate prior findings indicating similar relationships and empirical patterns across different contexts and periods (Bouaziz et al., 2020; Cohen & Zarowin, 2010; Cohen et al., 2008; Githaiga et al., 2022; Gounopoulos & Pham, 2018; Gunny, 2010; Li et al., 2016).

Model 2 examines the moderating role of independent commissioners' and audit committee members' financial and accounting expertise. The results show that both interaction variables have significant negative effects on the relationship between TMT expertise and REM, supporting H2 and H3. Although TMT expertise remains positively associated with REM, the coefficient becomes weaker after the inclusion of governance interaction variables. This finding indicates that financially competent monitoring bodies reduce the ability of TMT members to engage aggressively in real earnings management practices.

The moderating effect identified in this study highlights that governance effectiveness depends not only on the existence of monitoring mechanisms but also on the quality and competence of supervisory members. Independent commissioners and audit committee members with financial and accounting expertise are more capable of identifying abnormal operational decisions, evaluating the

economic consequences of managerial policies, and questioning decisions that potentially distort financial performance. As a result, the informational advantage possessed by financially sophisticated TMT members becomes less dominant because supervisory bodies are able to evaluate managerial decisions more critically.

This finding is particularly relevant in the Indonesian corporate governance environment, which adopts a two-tier governance system and relies heavily on internal monitoring mechanisms. In many Indonesian firms, concentrated ownership structures may increase the risk of managerial opportunism due to weaker external monitoring. Under such conditions, the competence of independent commissioners and audit committees becomes essential in strengthening governance quality. The results therefore imply that financial expertise within supervisory bodies is not merely symbolic compliance with governance regulations, but functions as an effective control mechanism capable of limiting opportunistic managerial behavior. These findings are also consistent with prior studies documenting that financially competent supervisory boards and audit committees are associated with lower earnings manipulation and higher reporting quality (Abbott et al., 2004; Badolato et al., 2014; Beasley et al., 2009; Bédard et al., 2004; Dhaliwal et al., 2010; Haji-Abdullah & Wan-Hussin, 2015; Hossain et al., 2011; Masmoudi Mardessi & Makni Fourati, 2020; Salleh & Stewart, 2012; Sharma et al., 2009; Zalata et al., 2018).

CONCLUSION

This study examines the role of independent commissioners' and audit committee members' financial and accounting expertise in constraining real earnings management practices conducted by TMTs. The findings show that TMT financial and accounting expertise increases the likelihood of real earnings management, indicating that managerial expertise may create greater capability to manipulate operational activities for earnings-related objectives. However, this tendency becomes weaker when independent commissioners and audit committee members also possess financial and accounting expertise. These findings remain consistent in both family and non-family firms.

This study contributes to the corporate governance and earnings management literature by demonstrating that financial expertise functions as a double-edged mechanism within the governance structure. While financial expertise at the managerial level may strengthen managerial capability to engage in real earnings management, financial expertise within supervisory bodies enhances monitoring effectiveness and limits opportunistic managerial behavior. Therefore, this study extends agency theory and Upper Echelons Theory by emphasizing that governance effectiveness depends not only on the existence of monitoring mechanisms, but also on the competence alignment between managerial and supervisory parties.

Practically, the findings imply that firms should not only prioritize independence in governance structures but also ensure that independent commissioners and audit committee members possess adequate financial and accounting expertise. In the Indonesian two-tier governance system, such competence is important to strengthen monitoring quality, reduce information asymmetry, and improve the credibility of financial reporting. In addition, the findings provide implications for regulators in strengthening governance policies related to the competency requirements of supervisory boards, particularly in state-owned and highly concentrated firms where monitoring challenges tend to be greater.

LIMITATION & SUGGESTIONS

Finally, even though the results made a positive contribution, theoretically and practically, this study has limitations. As in the study of Sy dan Tinker (2005), the use of data in the form of archives in accounting research has limitations, namely archive data sourced from published company financial reports does not provide better results than data obtained from direct observations such as surveys or interviews. We can accept this, especially in the context of studies related to REM, which manipulate

profits using real activities from TMT. Thus, direct observation of the company can certainly strengthen the research results. Therefore, in the future, other researchers can combine data sources, namely archives and surveys, to strengthen the findings. In addition, it is important to study the effectiveness of independent board and audit committees on profit manipulation practices in state-owned companies because in state-owned companies, there are indications that independent board members have political connections that can reduce the quality of control mechanisms in these companies.

ACKNOWLEDGDE

The authors would like to thank all contributors to this article for their valuable input.

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